

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
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P R 151345Z DEC 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 9126
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O. 11652: N/A
TAGS: ECON BR
SUBJECT: BRAZILIAN ECONOMIC INDICATORS

REF: (A) BRASILIA 9526, (B) BRASILIA 10160

1. SUMMARY. IN NOVEMBER THE BRAZILIAN ECONOMY MAY HAVE CONTINUED DECELERATING SLOWLY ON A SEASONALLY ADJUSTED BASIS -- BUT THE MIXED PERFORMANCE OF INDICATORS DOES NOT PERMIT A JUDGMENT THAT ALL SECTORS ARE TENDING DOWNWARD. SEASONALLY-ADJUSTED AGGREGATE DEMAND OVER THE NEXT TWO-TO-THREE MONTHS IS LIKELY TO TREND DOWNWARD IN THE FACE OF: (A) THE SHARPLY NEGATIVE RATE OF GROWTH OF REAL MONEY SUPPLY, WHICH IS UNPRECEDENTED IN RECENT YEARS, (B) SHORTAGES OF SOME INDUSTRIAL MATERIALS, ESPECIALLY STEEL, AND (C) THE EXPECTATIONAL EFFECTS OF IMPENDING GOVERNMENT SPENDING CUTS. END SUMMARY.

2. INDUSTRY. ONE PRESS REPORT QUOTED UNNAMED OFFICIAL SOURCES AS SAYING THAT MANUFACTURING OUTPUT GREW BY ABOUT 10 PERCENT IN OCTOBER AS COMPARED WITH OCTOBER 1975. IF THIS IS TRUE, MANUFACTURING PRODUCTION DID NOT LOSE MOMENTUM UP THROUGH OCTOBER. OTHER NEWS STORIES REPORTED THE FOLLOWING STATISTICS:

(A) ELECTRICITY THE SALE OF ELECTRICITY IN THE INDUSTRIAL SOUTHEASTERN REGION (INCLUDING RIO DE JANEIRO AND SAO PAULO) BY UNCLASSIFIED

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THE "LIGHT" COMPANY INCREASED BY 10.9 PERCENT FROM JANUARY THROUGH

NOVEMBER, AS COMPARED WITH THE SAME PERIOD LAST YEAR. COMPARING THE MONTH OF NOVEMBER 1976 WITH NOVEMBER 1975, HOWEVER, THE INCREASE WAS ONLY 6.9 PERCENT. RELATIVE TO THE MONTH OF OCTOBER, THIS OVERALL FIGURE REFLECTS A SMALL DECLINE IN SAO PAULO AND A RISE OVER OCTOBER IN RIO DE JANEIRO. ONE NEWS REPORT ATTRIBUTES THE OVERALL DECLINE IN ELECTRICITY CONSUMPTION TO A SLOWER RATE OF INDUSTRIAL PRODUCTION.

(B) VEHICLES. VEHICLE PRODUCTION IN NOVEMBER, 82,828 UNITS, WAS 1.7 PERCENT HIGHER THAN IN OCTOBER, AND 16.6 PERCENT HIGHER THAN IN NOVEMBER 1975. THROUGH NOVEMBER, 903,832 VEHICLES HAVE BEEN PRODUCED, 4.9 PERCENT MORE THAN WERE PRODUCED IN THE FIRST ELEVEN MONTHS OF 1975.

(C) PETROLEUM CONSUMPTION. APPARENT CONSUMPTION (INCLUDING INVENTORY ACCUMULATION) OF PETROLEUM DERIVATIVES IN OCTOBER REBOUNDED SOMEWHAT, REVERSING THE DECLINING TREND THAT STARTED IN JULY. FROM JANUARY THROUGH OCTOBER 1976 AS COMPARED WITH THE SAME PERIOD LAST YEAR, APPARENT CONSUMPTION INCREASED BY 9.7 PERCENT, TO 45.22 MILLION CUBIC METERS. REGARDING THE MAJOR COMPONENTS OF THE TOTAL, APPARENT CONSUMPTION OF DIESEL OIL WAS UP BY 18.1 PERCENT; FUEL OIL, BY 12.6 PERCENT; AND REGULAR GASOLINE, UP BY ONLY 0.3 PERCENT.

(D) STEEL PRODUCTION. PRODUCTION OF STEEL IN 1976 IS EXPECTED TO REACH 9.2 MILLION TONS. THIS REPRESENTS A DISAPPOINTMENT TO THE GOVERNMENT, WHICH HAD HOPED FOR 10 MILLION TONS THIS YEAR. DELAYS IN THE EXPANSION OF CAPACITY PROBABLY CAUSED THE PRODUCTION SHORTFALL. MEANWHILE THE DEMAND FOR STEEL IS STRONG. ACCORDING TO ONE NEWS REPORT, ALTHOUGH THE OFFICIAL PRICE OF STEEL PLATE IS 4.60-4.70 CRUZEIROS PER KILOGRAM, THE PARALLEL (BLACK) MARKET BRINGS 8.00-9.00 PER KILOGRAM. STATISTICS RELEASED BY THE BRAZILIAN STEEL INSTITUTE SHOW OUTPUT UP BY 10.5 PERCENT THROUGH NOVEMBER AS COMPARED WITH THE FIRST ELEVEN MONTHS OF 1975. DURING NOVEMBER 757,348 TONS WERE PRODUCED, BRINGING THE TOTAL FOR THE YEAR TO 8,341,133 TONS.

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(E) ELECTRICAL-ELECTRONIC. THE PRESIDENT OF THE BRAZILIAN ASSOCIATION OF THE ELECTRICAL-ELECTRONIC INDUSTRY (ABINEE) REPORTEDLY PREDICTED THAT IN 1976 THE INDUSTRY'S SALES AND PRODUCTION WILL BE UP BY ABOUT 20 PERCENT IN RELATION TO 1975.

(F) ALUMINUM. INDUSTRIAL CONSUMPTION OF ALUMINUM IS EXPECTED TO REACH ABOUT 260,000 TONS IN 1976, A 10 PERCENT GAIN OVER 1975.

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4. CONSUMER BUYING. BECAUSE CONSUMER CREDIT RESTRICTIONS ARE BITING HARDER NOW, AND BECAUSE GOVERNMENT-DECREED SALARY READJUSTMENTS ARE LOWER THAN ACCUMULATED INFLATION, RETAIL SEEM TO BE CONTINUING A DECLINE THAT STARTED IN SEPTEMBER AND OCTOBER. ONE NEWS REPORT CLAIMED THAT RETAIL SALES IN SAO PAULO IN THE FIRST TEN DAYS OF DECEMBER WERE WELL BELOW THOSE OF LAST YEAR. FURTHERMORE, THE RATE OF DECLINE EXCEEDED THAT REPORTED FOR NOVEMBER, WHEN RETAIL SALES IN SAO PAULO DROPPED BY 6.8 PERCENT IN RELATION TO NOVEMBER 1975. (THE OCTOBER 1976 DECLINE RELATIVE TO OCTOBER 1975 WAS 0.6 PERCENT.) SALES OF NONDURABLES DROPPED BY 8.1 PERCENT, VERSUS A 5.3 PERCENT DECLINE FOR DURABLES. SOME SAO PAULO RETAILERS REPORTEDLY FEAR LARGER-THAN-NORMAL INVENTORIES IN EARLY 1977, AND SLOW CONSUMER BUYING IN 1977 BECAUSE OF TIGHT CREDIT. NOVEMBER RETAIL SALES DATA FOR RIO DE JANEIRO ARE NOT YET AVAILABLE, BUT IN OCTOBER (RELATIVE TO OCTOBER 1975) SALES DECLINED BY 9.9 PERCENT. PROBABLY FOR SEASONAL REASONS SALES WERE 8.3 PERCENT HIGHER IN OCTOBER THAN IN SEPTEMBER.

5. DEMAND FOR ELECTRICAL HOME APPLIANCES IS CONTINUING ITS DECLINE. AS COMPARED WITH RESPECTIVE MONTHS IN 1975, SALES IN NOVEMBER 1976 WERE DOWN BY 5.3 PERCENT. THIS DECLINE WAS SHARPER THAN THE 2.9 PERCENT DECLINE REGISTERED IN OCTOBER. IN SPITE OF THOSE DECLINES, ABINEE EXPECTS SALES FOR THE YEAR AS A WHOLE TO EXCEED 1975 SALES BY ABOUT 30 PERCENT. LEADING THE SALES GROWTH IS COLOR TELEVISION SETS, WHICH ARE EXPECTED TO BE UP BY 42 PERCENT (TO

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650,000 SETS) IN 1976 OVER SALES IN 1975. BY CONTRAST, SALES OF BLACK-AND-WHITE SETS ARE EXPECTED TO CLIMB BY ONLY 3.3 PERCENT.

6. SHIPPING. ACCORDING TO SUNAMAM AS REPORTED IN THE PRESS, FROM JANUARY THROUGH AUGUST BRAZILIAN FLAG VESSELS CARRIED 4.2 PERCENT LESS TONNAGE THAN IN THE SAME PERIOD IN 1975.

7. INFLATION. ONE NEWS REPORT CLAIMS TECHNICIANS AT THE GETULIO VARGAS FOUNDATION HAVE MADE PRELIMINARY CALCULATIONS THAT SHOW INFLATION IN DECEMBER WILL CLIMB ABOVE 2.5 PERCENT, PERHAPS EVEN REACHING 3.0 PERCENT. THE FOUNDATION HAS RE-LEASED FINAL STATISTICS FOR NOVEMBER (REF B REPORTED PRE-LIMINARY STATISTICS):

	PERCENTAGE		
INDEX	INCREASE FOR		
(1965-67	PERCENTAGE	JAN-NOV '76	
EQUALS	INCREASE FOR	VERSUS	
100)	NOVEMBER	JAN-NOV '75	

GENERAL PRICE INDEX,

INTERNAL SUPPLY	987.0	1.9	43.0
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WHOLESALE PRICES,

INTERNAL SUPPLY	971.4	1.7	41.6
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RIO DE JANEIRO

COST-OF-LIVING	984.4	1.9	41.0
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8. MONEY SUPPLY. THE MINISTER OF FINANCE HAS ANNOUNCED THAT THE MONEY SUPPLY (M1) INCREASED BY 22 PERCENT THROUGH NOVEMBER AS COMPARED WITH DECEMBER 31, 1975. FROM THE END OF NOVEMBER 1975 TO THE END OF NOVEMBER 1976, THE MONEY SUPPLY HAS DECLINED BY 8.7 PERCENT RELATIVE TO INFLATION. ON A NOVEMBER-TO-NOVEMBER BASIS, THIS DECLINE IN REAL TERMS IS BRAZIL'S FIRST SINCE 1966, WHEN THE DECLINE WAS 16.1 PERCENT. THE MOST RECENT NOVEMBER-TO-NOVEMBER PERIOD OF LOW REAL MONETARY GROWTH OCCURED IN 1974, WHEN THE REAL INCREASE WAS ONLY 0.4 PERCENT. THIS HELPED DRAG THE ECONOMY INTO A SLOWDOWN IN LATE 1974 AND THE FIRST HALF OF 1975. SOME ECONOMISTS WITH WHOM WE HAVE SPOKEN FEAR THAT

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THE OFFICIAL ZEAL TO CONSTRAIN MONETARY EXPANSION THIE

YEAR MAY HAVE GONE TOO FAR, AND WILL LEAD TO STRONG DEFLATIONARY
PRESSURES STARTING IN THE FIRST QUARTER OF 1977.
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